

core operations as adjusted is 80% of the prior year's pre-tax income from core operations, the incentive pool is funded in an amount sufficient to pay all participants 25% of their target award. Generally, no awards are earned if pre-tax income from core operations as adjusted is less than 80% of the prior year's pre-tax income from core operations. The Compensation Committee has discretion to establish or increase the size of the incentive pool even if performance measures are not achieved. Once the incentive pool is established, an executive officer's award payment is determined based on the individual's target award, performance and other factors determined by the Compensation Committee.

In order to receive an AICP award payment for a specific calendar year, employees generally must be actively employed by Grace through the payout date, which is typically in March of the following year. In the discretion of the Compensation Committee, an employee whose employment terminates prior to the payout date may receive an AICP award payment if the employee has more than three months' service under the AICP and employment terminates for any of the following reasons: retirement under a Grace retirement plan; death; disability; divestment; or other termination of employment by Grace that is not for cause. If an employee whose employment terminates prior to the end of the year receives an AICP award payment, the amount of the AICP award payment will generally be prorated for the period of the employee's service during the year. See "Potential Payments Upon Termination or Change-In-Control—Contractual Termination Provisions" for a description of the circumstances under which AICP payments would be made to Mr. Festa in the event his employment with Grace is terminated.

Long-Term Incentive Program (LTIP)

Our long-term incentive programs are multi-year, cash-based, pay-for-performance incentive programs. Awards under the LTIPs are payable 100% in cash, based on the extent to which we achieve a specified compound annual growth in our pre-tax income from core operations as adjusted over the three-year performance period using results for the year prior to the first year of the performance period as the baseline. We generally refer to this growth objective as a CAGR. In order to earn the target award, our CAGR must be 6% and, to earn the maximum of two times the target award, our CAGR must be 25%. No awards are earned if the CAGR is zero or negative.

LTIP Compound Annual Growth Rate (CAGR) as of December 31, 2007

	<u>LTIP</u>	<u>CAGR</u>
2005-2007 LTIP (full 3-year period)		14.04 %
2006-2008 LTIP (partial 2-year period)		15.40 %

Employees who become entitled to award payments under an LTIP are paid in two installments: one in March of the third year of the performance period (as partial payment based on the first two years of the performance period but limited to 50% of the LTIP target for those two years) ; and the other in March of the year following the performance period (as final payment based on the complete three-year performance period but offset by the prior partial payment).

Based on 2005-2007 operating performance, final payments under the 2005 LTIP are calculated based upon 142% of the target for each participant. Based on 2006-2008 operating performance, partial payments under the 2006 LTIP are calculated based upon 149% of the target for each participant but limited to 50% of the target amount for those two years.

In order to receive an LTIP award payment, employees generally must be actively employed by Grace through the payout date, which is in March following the second and third years of the LTIP performance period. An employee whose employment terminates prior to the payout date will forfeit any unpaid LTIP award payment if employment terminates for any of the following reasons:

- voluntary termination without the consent of the Compensation Committee ;
- retirement under a Grace retirement plan prior to age 62 without the consent of the Compensation Committee ; or
- termination for cause.

An employee whose employment terminates prior to the payout date will receive an LTIP award payment if employment terminates for any of the following reasons:

- retirement under a Grace retirement plan either at or after age 62;
- death or disability; or
- involuntary termination after a change in control of Grace (as defined in the LTIP).

See "Potential Payments Upon Termination or Change-In-Control—Contractual Termination Provisions" for a description of the circumstances under which LTIP payments, as described below, would be made to Mr. Festa in the event his employment with Grace is terminated.

If an employee whose employment terminates prior to the end of an LTIP performance period receives an LTIP award payment for that performance period, the amount of the LTIP award payment will be prorated for the period of

the employee's service during the performance period. Assuming the employment of the executive officers named in the Summary Compensation Table was terminated as of December 31, 2007 and the 2006 and 2007 LTIPs pay out at the target amounts, under any of the above-listed circumstances, the executive officers would be eligible for payments under their outstanding LTIPs as follows:

Name	2005-2007 LTIP \$	2006-2008 LTIP \$	2007-2009 LTIP \$
A. E. Festa	1,836,467	1,126,666	563,333
R. M. Tarola	461,833	300,000	166,667
G. E. Poling	543,333	400,000	216,667
D. A. Bonham	201,765	200,000	166,667
M. A. Shelnitz	353,167	200,000	108,332

In the discretion of the Compensation Committee, an employee whose employment terminates for a reason that is not described above (i.e. involuntary termination not for cause or transfer to the buyer of a Grace business unit) prior to the payout date may receive an LTIP award payment.

Stock Options Granted in 2007

We granted no stock options or other equity awards to the executive officers named in the Summary Compensation Table during 2007.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information regarding outstanding stock options held by the executive officers named in the Summary Compensation Table as of December 31, 2007. All of these stock options were granted prior to 2002.

Name	Option Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date
A. E. Festa	-0-	-0-	-0-	N/A	N/A
R. M. Tarola	100,000	-0-	-0-	16.1875	5/10/2009
	75,000	-0-	-0-	13.4688	5/9/2010
	27,900	-0-	-0-	2.4000	3/7/2011
G. E. Poling	50,000	-0-	-0-	19.4688	3/31/2008
	35,000	-0-	-0-	13.4688	5/9/2010
	16,500	-0-	-0-	2.4000	3/7/2011
D. A. Bonham	-0-	-0-	-0-	N/A	N/A
M. A. Shelnitz	13,000	-0-	-0-	19.4688	3/31/2008
	22,000	-0-	-0-	12.8125	3/3/2009
	25,000	-0-	-0-	13.4688	5/9/2010
	8,200	-0-	-0-	2.4000	3/7/2011

Option Exercises And Stock Vested

The following table provides information regarding the exercise of options held by the executive officers named in the Summary Compensation Table during 2007. All of these stock options were granted prior to 2002.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
A. E. Festa	-0-	-0-	-0-	-0-
R. M. Tarola	-0-	-0-	-0-	-0-
G. E. Poling	10,789 *	133,335	-0-	-0-
D. A. Bonham	-0-	-0-	-0-	-0-
M. A. Shelnitz	6,743 *	83,333	-0-	-0-

* Exercised options had an expiration date of March 4, 2007.